

factioneers include the City of London bulletin, *International Currency Review*.

In the pages of these press outlets, the most extreme Friedmanites hint of "a new 1976" if the government does not adopt policies aimed at restricting growth. In 1976 the finances of Mexico were left in shambles, after a successful campaign for devaluation spiced with a currency flight estimated at \$4 billion.

A devaluation in today's situation, as the franker private sector leaders will admit, will have only one effect on inflation, to increase it. Skyrocketing exports of oil are keeping pace with the increases in imports, so the trade deficit is not expanding.

True, Mexico's industrial exports are stagnating. But this has little to do with an "overvalued peso." The extraordinary surge in domestic demand has gobbled up some inventories otherwise destined for export; and the U.S. market, Mexico's largest, is softening rapidly as U.S. growth rates crumble.

Finally, the government is building into both its "oil for technology" trade policies and foreign investment policies special export incentive arrangements. In the case of the multinationals, investing companies in many areas are being told they're welcome to a cut of the burgeoning domestic market—if they export a prescribed percentage back into their home operations elsewhere.

Thus the real effect of a drive for devaluation is political. The financial uncertainty leading into a devaluation, plus the dislocations in pricing and wage policy that would result, would undermine the credibility of the government as the major protagonist of Mexico's economic takeoff.

This is heady stuff for Friedmanite and other monetarist opponents of Mexico's dirigist development strategy. And needless to say, many in Mexico's private sector leadership are already planning to translate economic chaos into political leverage in the selection of the 1982 presidential choice to succeed López Portillo.

### Drain out of pesos

"Dollarization" has been one of the primary weapons of those seeking to play a devaluation card. The outflow of capital from pesos to dollars resumed in early 1979, after tailing off the previous two years. In the first nine months of 1979, peso deposits increased 18 percent, while dollar accounts zoomed 29 percent. In the first four months of 1980, dramatic growth in dollar accounts continued, causing serious alarm in government circles.

The dollarization trend has for now been reversed, according to a July 14 Bank of Mexico release. Part of this is due to the lowering of international interest rates.

But part of it is due to the late spring decision to take the ceiling off two-year peso deposit rates, which

## The voices against growth

*The following are excerpts from the May issue of the London-based International Currency Review (ICR).*

**On GATT:** After having sat on the fence ever since assuming office in 1976, President López Portillo has finally come down on the side of short-term political expediency—sacrificing Mexico's long-term economic welfare. . . . By voting the way he did [against GATT—ed.], he showed himself to be in the mould of the short-sighted protectionist and self-glorifying politicians who have contributed so much to bringing the Mexican economy to its present precarious state.

**On devaluation:** It is now abundantly clear that the López Portillo administration made a most serious blunder in returning to a fixed rate of exchange following the financial crisis in 1976. . . . Having missed the boat in December 1976, Sr. Portillo is drifting toward a repetition of his predecessor's nightmare. The main difference between the present rumbling crisis and President Echeverria's last year in office, of course, is the presence of exploited oil. Far from easing the situation, however, the oil boom has directed the economy into a box, from which a forced devaluation may turn out to be the only viable exit. . . . It is only a matter of time before the country slips into a chaotic revolutionary environment reminiscent of Iran. . . .

*The following are excerpts from a column appearing in the Mexico City weekly Impacto's July 16 edition:*

Evidently, the regime *does not want* to combat inflation [emphasis in the original]. . . .

We must not delude ourselves or think that through "dialoguing" we can convince the State Interventionists of their error. . . .

We are at the brink of a huge earthquake, and it is dangerously close to the decision-making moments concerning the not-too-distant presidential succession. We who oppose all this; who constitute an amorphous and dispersed party of authentic opposition, we no longer believe, writing as we have, and as *Impacto* and *El Herald* have, that we are going to change things. . . . Many people are breathing a pre-revolutionary climate. . . .